

**EMMETSBURG
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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EMMETSBURG COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2005 Election)

Jeff Morey	President	2005
Thomas Stillman	Vice President	2005
Don Hagen		2007
Paul Herbers		2007
Dave Van Oosbree		2006
Steve Pelzer		2007
Karla Anderson		2006

(After September, 2005 Election)

Karla Anderson	President	2006
Dave Van Osbree	Vice President	2006
Don Hagen		2007
Paul Herbers		2007
Scott Dettmann		2008
Steve Pelzer		2007
Kent Egland		2008

SCHOOL OFFICIALS

John Joynt	Superintendent
Patricia Swanson	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Emmetsburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Emmetsburg Community School District, Emmetsburg, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Emmetsburg Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated August 28, 2006 on our consideration of Emmetsburg Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Emmetsburg Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

August 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Emmetsburg Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,338,110 in fiscal 2005 to \$6,427,747 in fiscal 2006, while General Fund expenditures increased from \$5,751,829 in fiscal year 2005 to \$5,779,701 in fiscal 2006.
- Expenses held steady due to careful monitoring of discretionary spending.
- General Fund revenues increased almost \$100,000 primarily due to increases in tuition and miscellaneous revenue.
- The General Fund balance increased over \$640,000 to finish the year with a positive balance of over \$1,200,000. Just three years ago, the District's General Fund was in a deficit financial position.
- The District began collecting local option sales and services taxes in fiscal year 2005. This money is to be used for property tax relief, debt retirement, equipment and building projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements and required supplementary information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Emmetsburg Community School District

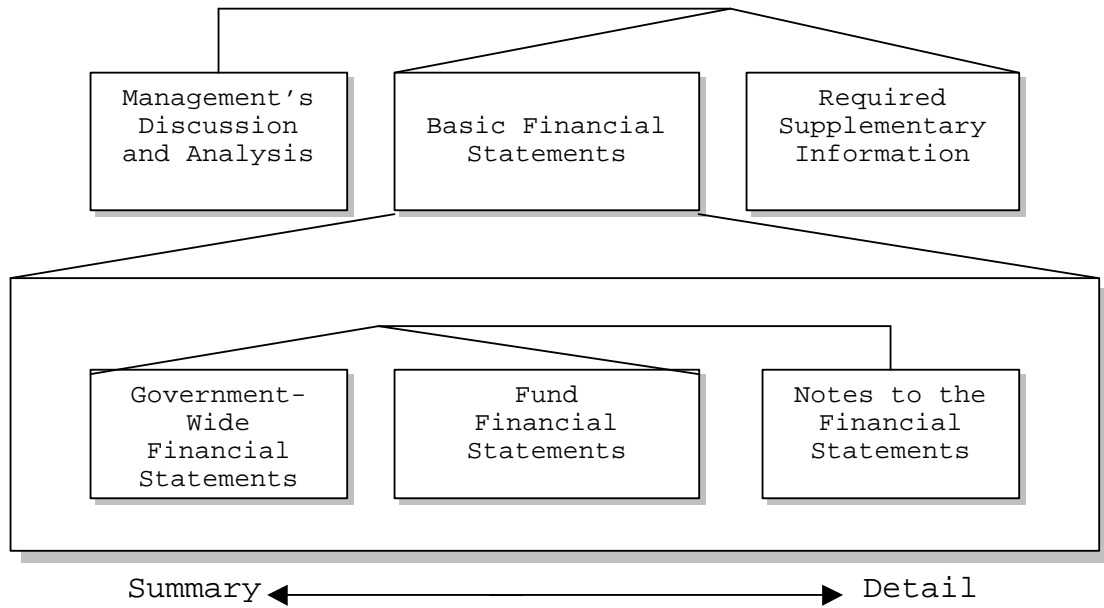


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2				
Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long- term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- **Business type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, and administration. Most of these activities are funded with property taxes and state aid finance.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Agency Funds.

- Agency Fund - The District accounts for the flex benefit program in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Current assets	5,608	5,103	10	12	5,618	5,115	9.83%
Capital assets	<u>2,753</u>	<u>2,812</u>	<u>6</u>	<u>6</u>	<u>2,759</u>	<u>2,818</u>	<u>-2.09%</u>
Total assets	<u>8,361</u>	<u>7,915</u>	<u>16</u>	<u>18</u>	<u>8,377</u>	<u>7,933</u>	<u>5.60%</u>
Current liabilities	3,275	3,772	4	3	3,279	3,775	-13.14%
Non-current liabilities	<u>208</u>	<u>271</u>	<u>-</u>	<u>-</u>	<u>208</u>	<u>271</u>	<u>-23.25%</u>
Total liabilities	<u>3,483</u>	<u>4,043</u>	<u>4</u>	<u>3</u>	<u>3,487</u>	<u>4,046</u>	<u>-13.82%</u>
Net Assets							
Invested in capital assets, net of related debt	2,628	2,562	5	6	2,633	2,568	2.53%
Restricted	653	317			653	317	105.99%
Unrestricted	<u>1,597</u>	<u>993</u>	<u>7</u>	<u>9</u>	<u>1,604</u>	<u>1,002</u>	<u>60.08%</u>
Total net assets	<u>4,878</u>	<u>3,872</u>	<u>12</u>	<u>15</u>	<u>4,890</u>	<u>3,887</u>	<u>25.80%</u>

Unrestricted net assets grew as a result of two primary factors.

- 1) Careful monitoring of General Fund expenses allowed an increase in fund balances of over \$640,000 despite revenues increasing less than \$100,000.
- 2) Local Option Sales and Services Tax being collected but no expenditures being made from this fund.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2006 and 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Revenues:							
Program revenues:							
Charges for service and sales	557	488	203	192	760	680	11.76%
Operating grants, contributions and restricted interest	1,029	1,029	142	137	1,171	1,166	0.43%
General revenues:							
Property tax	2,666	2,730	-	-	2,666	2,730	-2.34%
Income surtax	360	571	-	-	360	571	-36.95%
Local option sales tax	365	243	-	-	365	243	50.21%
Unrestricted state grants	2,345	2,365	-	-	2,345	2,365	-0.85%
Unrestricted investment earnings	49	21	-	-	49	21	133.33%
Other	90	19	-	-	90	19	373.68%
Total revenues	<u>7,461</u>	<u>7,466</u>	<u>345</u>	<u>329</u>	<u>7,806</u>	<u>7,795</u>	<u>0.14%</u>
Program expenses:							
Governmental activities:							
Instruction	4,121	3,957	-	-	4,121	3,957	4.14%
Support Services	2,002	1,549	-	-	2,002	1,549	29.24%
Non-instructional programs	-	-	348	341	348	341	2.05%
Other expenses	<u>333</u>	<u>241</u>	<u>-</u>	<u>-</u>	<u>333</u>	<u>241</u>	<u>38.17%</u>
Total expenses	<u>6,456</u>	<u>5,747</u>	<u>348</u>	<u>341</u>	<u>6,804</u>	<u>6,088</u>	<u>11.76%</u>
Change in net assets	<u>1,005</u>	<u>1,719</u>	<u>(3)</u>	<u>(12)</u>	<u>1,002</u>	<u>1,707</u>	<u>-41.30%</u>

Property tax and unrestricted state grants account for 64% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 90% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,461,116 and expenses were \$6,455,644.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(expressed in thousands)

	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-2006	2006	2005	Change 2005-2006
	\$	\$		\$	\$	
Instruction	4,121	3,957	4.14%	2,846	2,692	5.72%
Support Services	2,002	1,549	29.24%	1,924	1,529	25.83%
Other expenses	<u>333</u>	<u>241</u>	<u>38.17%</u>	<u>100</u>	<u>10</u>	<u>900.00%</u>
Totals	<u>6,456</u>	<u>5,747</u>	<u>12.34%</u>	<u>4,870</u>	<u>4,231</u>	<u>15.10%</u>

- The cost financed by users of the District's programs was \$556,458.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$584,103.
- The net cost of governmental activities was financed with \$2,666,456 in property tax, \$2,344,755 in state foundation aid, and \$49,433 in interest income.

Proprietary-Type Funds

Revenues for the District's School Nutrition Fund were \$344,847 and expenses were \$347,542. The revenues include charges for services, contributions, and federal and state reimbursements.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Emmetsburg Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$4,877,809, an 26% increase over last year's ending fund balance of \$3,872,337.

Governmental Fund Highlights

Several factors contributed to the increase of the fund balance in the District's governmental funds.

- The District received \$365,000 in local option sales and service taxes. This money is being saved for future infrastructure projects.
- The District controlled discretionary spending in all areas.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased approximately \$3,000 in Fiscal 2006 primarily due to increased food costs outpacing increases in revenues.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

The budget was amended during the year to reflect increased Medicaid costs as well as transportation and facility costs that were higher than anticipated. Actual expenditures did not exceed neither the amended budget amounts nor the unspent authorized budget.

CAPITAL ASSETS

The District has invested more than \$6 million by the end of fiscal year 2005 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. The District made improvements and updated equipment at all facilities during the year as well as purchased three new vehicles. Total depreciation expenses for the year exceeded \$170,000.

Long-Term Debt

The District had \$125,000 in capital loan notes outstanding. This represents a decrease of \$125,000 from the previous year. The principal and interest on the bonds will be paid in full by June 1, 2007. The District makes principal and interest payments annually on these loans using property tax dollars obtained through the Physical Plant and Equipment Levy.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- To offset the impact of declining enrollment, the State has provided a budget guarantee provision for districts. This budget guarantee provision is being phased out over a 10 year period. The District was on budget guarantee for Fiscal Year 2006 and will continue to be on budget guarantee for several years to come. Due to previous and continued declining enrollment, the amount of this reduction due to the phase out of the budget guarantee will likely grow over the next several years.
- The District will need to monitor payroll expenses as they account for the vast majority of the budget.
- The District hopes to achieve future savings by combining the junior and senior high schools onto one campus.
- Alternative sources must be found due to funding inconsistencies on the parts of the federal and state governments.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the Federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Patricia Swanson, District Business Manager, Emmetsburg Community School District, 205 King Street, Emmetsburg, IA 50536.

Basic Financial Statements

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	1,954,239	-	1,954,239
ISCAP investments	610,587	-	610,587
Receivables:			
Property tax:			
Current year	49,882	-	49,882
Succeeding year	2,612,124	-	2,612,124
Income surtax	269,304	-	269,304
Due from other governments	105,285	-	105,285
Other receivables	-	467	467
ISCAP accrued interest	6,077	-	6,077
Inventories	-	10,421	10,421
Capital assets, net of accumulated depreciation	2,753,401	4,640	2,758,041
Total assets	8,360,899	15,528	8,376,427
Liabilities			
Accounts payable	705	3,713	4,418
ISCAP warrants payable	610,000	-	610,000
ISCAP accrued interest payable	9,937	-	9,937
Deferred revenue:			
Succeeding year property tax	2,612,124	-	2,612,124
Federal programs	42,101	-	42,101
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	83,223	-	83,223
Capital loan notes payable	125,000	-	125,000
Total liabilities	3,483,090	3,713	3,486,803
Net assets			
Invested in capital assets, net of related debt	2,628,401	4,640	2,633,041
Restricted for:			
Physical plant and equipment levy	103,612	-	103,612
Capital projects	548,589	-	548,589
Unrestricted	1,597,207	7,175	1,604,382
Total net assets	4,877,809	11,815	4,889,624

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:	<u>4,121,009</u>	<u>556,458</u>	<u>718,712</u>	<u>(2,845,839)</u>	<u>-</u>	<u>(2,845,839)</u>
Support services:						
Student services	129,598	-	-	(129,598)	-	(129,598)
Instructional staff services	163,935	-	-	(163,935)	-	(163,935)
Administration services	635,668	-	-	(635,668)	-	(635,668)
Operation and maintenance of plant services	736,331	-	58,570	(677,761)	-	(677,761)
Transportation services	<u>336,523</u>	<u>-</u>	<u>19,400</u>	<u>(317,123)</u>	<u>-</u>	<u>(317,123)</u>
	<u>2,002,055</u>	<u>-</u>	<u>77,970</u>	<u>(1,924,085)</u>	<u>-</u>	<u>(1,924,085)</u>
Other expenditures:						
AEA flowthrough	232,284	-	232,284	-	-	-
Interest on long-term debt	7,000	-	-	(7,000)	-	(7,000)
Facilities acquisition and construction	<u>93,296</u>	<u>-</u>	<u>325</u>	<u>(92,971)</u>	<u>-</u>	<u>(92,971)</u>
	<u>332,580</u>	<u>-</u>	<u>232,609</u>	<u>(99,971)</u>	<u>-</u>	<u>(99,971)</u>
Total governmental activities	<u>6,455,644</u>	<u>556,458</u>	<u>1,029,291</u>	<u>(4,869,895)</u>	<u>-</u>	<u>(4,869,895)</u>

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business type activities:					
Non-instructional programs:					
Nutrition services	347,542	203,261	141,586	-	(2,695)
Total	6,803,186	759,719	1,170,877	(4,869,895)	(2,695)
General revenues:					
Property tax levied for:					
General purposes			2,411,003	-	2,411,003
Management			125,142	-	125,142
Capital outlay			130,311	-	130,311
Income surtax:					
General purposes			213,755	-	213,755
Capital outlay			146,021	-	146,021
Local option sales tax			365,181	-	365,181
Unrestricted state grants			2,344,755	-	2,344,755
Unrestricted investment earnings			49,433	-	49,433
Other			89,766	-	89,766
Total general revenue			5,875,367	-	5,875,367
Change in net assets			1,005,472	(2,695)	1,002,777
Net assets beginning of year			3,872,337	14,510	3,886,847
Net assets end of year			4,877,809	11,815	4,889,624

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	1,221,550	518,303	101,192	113,194	1,954,239
ISCAP investments	610,587	-	-	-	610,587
Receivables:					
Property tax:					
Current year	45,120	-	2,420	2,342	49,882
Succeeding year	2,340,721	-	136,403	135,000	2,612,124
Income surtax	157,094	-	112,210	-	269,304
Due from other governments	74,999	30,286	-	-	105,285
Other receivables	-	-	-	-	-
ISCAP accrued interest	6,077	-	-	-	6,077
Total assets	<u>4,456,148</u>	<u>548,589</u>	<u>352,225</u>	<u>250,536</u>	<u>5,607,498</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	-	-	-	705	705
ISCAP warrants payable	610,000	-	-	-	610,000
ISCAP accrued interest payable	9,937	-	-	-	9,937
Deferred revenue:					
Succeeding year property tax	2,340,721	-	136,403	135,000	2,612,124
Succeeding year income surtax	157,094	-	112,210	-	269,304
Federal programs	42,101	-	-	-	42,101
Total liabilities	<u>3,159,853</u>	<u>-</u>	<u>248,613</u>	<u>135,705</u>	<u>3,544,171</u>
Fund balances:					
Reserved for capital projects	-	548,589	-	-	548,589
Unreserved	<u>1,296,295</u>	<u>-</u>	<u>103,612</u>	<u>114,831</u>	<u>1,514,738</u>
Total fund balances	<u>1,296,295</u>	<u>548,589</u>	<u>103,612</u>	<u>114,831</u>	<u>2,063,327</u>
Total liabilities and fund balances	<u>4,456,148</u>	<u>548,589</u>	<u>352,225</u>	<u>250,536</u>	<u>5,607,498</u>

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (Exhibit C)	\$ 2,063,327
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities.	269,304
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,753,401
Long-term liabilities, including notes payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(208,223)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 4,877,809</u></u>

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2006

	General	Capital Projects	Physical Plant and Equipment Levy	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	2,621,131	365,181	276,332	-	125,142	3,387,786
Tuition	522,290	-	-	-	-	522,290
Other	173,367	325	7,993	-	204,586	386,271
State sources	2,860,730	-	93	-	90	2,860,913
Federal sources	250,229	-	50,000	-	-	300,229
Total revenues	<u>6,427,747</u>	<u>365,506</u>	<u>334,418</u>	<u>-</u>	<u>329,818</u>	<u>7,457,489</u>
Expenditures:						
Current:						
Instruction:	<u>3,821,382</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>237,068</u>	<u>4,058,450</u>
Support services:						
Student services	129,598	-	-	-	-	129,598
Instructional staff services	163,935	-	-	-	-	163,935
Administration services	635,668	-	-	-	-	635,668
Operation and maintenance of plant services	539,761	-	-	-	101,983	641,744
Transportation services	257,073	-	115,065	-	-	372,138
	<u>1,726,035</u>	<u>-</u>	<u>115,065</u>	<u>-</u>	<u>101,983</u>	<u>1,943,083</u>

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2006

	General	Capital Projects	Physical Plant and Equipment Levy	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Other expenditures:						
AEA flowthrough	232,284	-	-	-	-	232,284
Long-term debt:						
Principal	-	-	-	125,000	-	125,000
Interest	-	-	-	7,000	-	7,000
Facilities acquisition and construction	-	-	93,296	-	-	93,296
	<u>232,284</u>	<u>-</u>	<u>93,296</u>	<u>132,000</u>	<u>-</u>	<u>457,580</u>
Total expenditures	<u>5,779,701</u>	<u>-</u>	<u>208,361</u>	<u>132,000</u>	<u>339,051</u>	<u>6,459,113</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>648,046</u>	<u>365,506</u>	<u>126,057</u>	<u>(132,000)</u>	<u>(9,233)</u>	<u>998,376</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	132,000	-	132,000
Operating transfers out	<u>-</u>	<u>-</u>	<u>(132,000)</u>	<u>-</u>	<u>-</u>	<u>(132,000)</u>
	<u>-</u>	<u>-</u>	<u>(132,000)</u>	<u>132,000</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	648,046	365,506	(5,943)	-	(9,233)	998,376
Fund balances beginning of year	<u>648,249</u>	<u>183,083</u>	<u>109,555</u>	<u>-</u>	<u>124,064</u>	<u>1,064,951</u>
Fund balances end of year	<u>1,296,295</u>	<u>548,589</u>	<u>103,612</u>	<u>-</u>	<u>114,831</u>	<u>2,063,327</u>

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ 998,376

Amounts reported for governmental activities in the
 statement of activities are different because:

Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 3,627

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	115,065	
Depreciation expense	<u>(174,037)</u>	(58,972)

Early retirement expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: (62,559)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 125,000

Change in net assets of governmental activities (Exhibit B) \$ 1,005,472

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>203,261</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	126,469
Benefits	37,216
Services	943
Supplies	181,559
Depreciation	<u>1,355</u>
Total operating expenses	<u>347,542</u>
Operating (loss)	<u>(144,281)</u>
Non-operating revenues:	
State sources	4,413
Federal sources	136,909
Interest income	<u>264</u>
	<u>141,586</u>
Changes in net assets	(2,695)
Net assets beginning of year	<u>14,510</u>
Net assets end of year	<u><u>11,815</u></u>

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	202,933
Cash payments to employees for services	(163,685)
Cash payments to suppliers for goods or services	<u>(161,645)</u>
Net cash (used in) operating activities	<u>(122,397)</u>
Cash flows from non-capital financing activities:	
State grants received	4,413
Federal grants received	<u>117,720</u>
Net cash provided by non-capital financing activities	<u>122,133</u>
Cash flows from investing activities:	
Interest on investments	<u>264</u>
Net (decrease) in cash and cash equivalents	-
Cash and cash equivalents beginning of year	<u>-</u>
Cash and cash equivalents end of year	<u><u>-</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(144,281)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	1,355
(Increase) in other receivables	(328)
Commodities used	19,189
Decrease in inventory	1,127
Increase in accounts payable	<u>541</u>
	<u>(122,397)</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>-</u></u>
Non-cash investing, capital and financing activities:	

During the year ended June 30, 2006, the District received federal commodities valued at \$19,189.

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	Agency Fund
	<u>\$</u>
Assets	
Cash and pooled investments	<u>26,294</u>
Total assets	<u>26,294</u>
Liabilities	
Accounts payable	<u><u>26,294</u></u>

See notes to financial statements.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Emmetsburg Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the City of Emmetsburg, Iowa, and agricultural area in Palo Alto County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Emmetsburg Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Emmetsburg Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Palo Alto County Assessor Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Physical Plant and Equipment Levy is used to account for the purchase of equipment and the repairing, remodeling and construction of buildings and land improvements.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. the District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District form administering its flex spending plan.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures did not exceed the amount budgeted in any of the four functions.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Capital assets being depreciated:				
Buildings	4,928,014	-	-	4,928,014
Furniture and Equipment	<u>1,086,776</u>	<u>115,065</u>	<u>73,535</u>	<u>1,128,306</u>
Total capital assets being depreciated	<u>6,014,790</u>	<u>115,065</u>	<u>73,535</u>	<u>6,056,320</u>
Less accumulated depreciation for:				
Buildings	2,331,082	94,587	-	2,425,669
Furniture and Equipment	<u>881,335</u>	<u>79,450</u>	<u>73,535</u>	<u>887,250</u>
Total accumulated depreciation	<u>3,212,417</u>	<u>174,037</u>	<u>73,535</u>	<u>3,312,919</u>
Total capital assets being depreciated, net	<u>2,802,373</u>	<u>(58,972)</u>	<u>-</u>	<u>2,743,401</u>
Governmental activities, capital assets, net	<u><u>2,812,373</u></u>	<u><u>(58,972)</u></u>	<u><u>-</u></u>	<u><u>2,753,401</u></u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	125,304	0	-	125,304
Less accumulated depreciation	<u>119,309</u>	<u>1,355</u>	<u>-</u>	<u>120,664</u>
Business type activities capital assets, net	<u>5,995</u>	<u>(1,355)</u>	<u>-</u>	<u>4,640</u>

Depreciation expense was charged to the following function

Governmental activities:

Support services:

Plant operation and maintenance

94,587

Transportation services

79,450

174,037

Business Type activities

Food service operations

1,355

1,355

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semi-annual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semi-annual period. ISCAP accounts are maintained for each participating entity and provides monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investment	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06A	6/30/05	6/30/06	\$ -	-	-	-
2005-06B	1/28/05	1/27/06	295,026	5,979	294,000	7,454
2006-07A	6/30/05	6/30/06	<u>315,561</u>	<u>98</u>	<u>316,000</u>	<u>2,483</u>
Total			<u>\$610,587</u>	<u>7,077</u>	<u>610,000</u>	<u>9,937</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund for the year ended June 30, 2006.

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

(5) Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	<u>Capital Loan Notes</u>
Balance beginning of year	\$250,000
Additions	-
Reductions	<u>125,000</u>
Balance end of year	<u>\$125,000</u>

Capital Loan Notes Payable

Details of the District's June 30, 2006 Capital Loan Notes Payable are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates %</u>	<u>Interest \$</u>	<u>Principal \$</u>	<u>Total \$</u>
2007	2.95	<u>3,687</u>	<u>125,000</u>	<u>128,687</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must have attained the age of 55 on or before June 1 of the year of retirement but not exceeded the age of 62 when the benefit is elected. For benefits to be payable, the licensed employee must have completed at least 15 years of full-time service in the district, the last 10 years of which must be continuous employment. The early retirement benefit for each eligible employee is equal to the difference between BA step 4 and the salary reflected from the employee's position on the salary schedule. The benefit (for those electing the cash payment option) shall be payable one-half (½) on September 15 and one-half (½) on January 15 following retirement. For those electing the insurance option, the insurance premiums will be paid until the funds are exhausted. Early retirement benefits paid during the year ended June 30, 2006 totaled \$36,000. The cost of early retirement payments expected to be liquidated currently is recorded as a long-term liability in the amount of \$83,223.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$214,351, \$210,020, and \$212,648 respectively, equal to the required contributions for each year.

(7) Risk Management

Emmetsburg Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$232,284 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue: Physical Plant and Equipment Levy	<u>\$132,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(10) Related Party Transactions

The District had \$1,823 of business transactions between the District and District officials during the year ending June 30, 2006. These are described in the Schedule of Findings on Page 42.

(11) Commitments

The District approved a bid of \$173,415 for the purchase of football field lighting. Work began after July 1, 2006.

In October 2006, the voters of the District approved a \$74 million bond issue for additions to and remodeling of the current high school building. This will house all students in 7-12 when completed. The existing junior high building will no longer be used.

Required Supplementary Information

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund
Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	4,296,347	203,525	4,499,872	4,328,117	4,328,117	171,755
State sources	2,860,913	4,413	2,865,326	3,202,071	3,202,071	(336,745)
Federal sources	300,229	136,909	437,138	430,000	430,000	7,138
Total revenues	<u>7,457,489</u>	<u>344,847</u>	<u>7,802,336</u>	<u>7,960,188</u>	<u>7,960,188</u>	<u>(157,852)</u>
Expenditures:						
Instruction	4,058,450	-	4,058,450	4,573,870	4,573,870	515,420
Support services	1,943,083	-	1,943,083	1,980,000	1,980,000	36,917
Non-instructional programs	-	347,542	347,542	840,000	840,000	492,458
Other expenditures	457,580	-	457,580	798,130	798,130	340,550
Total expenditures	<u>6,459,113</u>	<u>347,542</u>	<u>6,806,655</u>	<u>8,192,000</u>	<u>8,192,000</u>	<u>1,385,345</u>
Excess (deficiency) of revenues over (under) expenditures	998,376	(2,695)	995,681	(231,812)	(231,812)	1,227,493
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(85,400)</u>	<u>(85,400)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	998,376	(2,695)	995,681	(317,212)	(317,212)	1,227,493
Balance beginning of year	<u>1,064,951</u>	<u>14,510</u>	<u>1,079,461</u>	<u>713,859</u>	<u>713,859</u>	<u>365,602</u>
Balance end of year	<u><u>2,063,327</u></u>	<u><u>11,815</u></u>	<u><u>2,075,142</u></u>	<u><u>396,647</u></u>	<u><u>396,647</u></u>	<u><u>1,593,095</u></u>

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures did not exceed the amount budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

Other Supplementary Information

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2006

	Management	Student Activity	Total
	\$	\$	\$
Assets			
Cash and pooled investments	29,958	83,236	113,194
Property tax receivable:			
Current year	2,342	-	2,342
Succeeding year	135,000	-	135,000
Other receivables	-	-	-
Total assets	<u>167,300</u>	<u>83,236</u>	<u>250,536</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	-	705	705
Deferred revenue:			
Succeeding year property tax	135,000	-	135,000
	<u>135,000</u>	<u>705</u>	<u>135,705</u>
Fund balances:			
Unreserved fund balance	32,300	82,531	114,831
	<u>32,300</u>	<u>82,531</u>	<u>114,831</u>
Total liabilities and fund balances	<u>167,300</u>	<u>83,236</u>	<u>250,536</u>

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	<u>Management</u>	<u>Student</u> <u>Activity</u>	<u>Total</u>
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	125,142	-	125,142
Other	394	204,192	204,586
State sources:	<u>90</u>	<u>-</u>	<u>90</u>
Total revenues	<u>125,626</u>	<u>204,192</u>	<u>329,818</u>
Expenditures:			
Instruction:	36,000	201,068	237,068
Support services:			
Plant operation and maintenance	<u>101,983</u>	<u>-</u>	<u>101,983</u>
Total expenditures	<u>137,983</u>	<u>201,068</u>	<u>339,051</u>
Excess (deficiency) of revenues over (under) expenditures	(12,357)	3,124	(9,233)
Fund balance beginning of year	<u>44,657</u>	<u>79,407</u>	<u>124,064</u>
Fund balance end of year	<u>32,300</u>	<u>82,531</u>	<u>114,831</u>

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Funds, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Interfund Transfers	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$	\$
Activity Tickets	30	(12,401)	12,542	-	171
Rental Fees	14	(500)	2,325	1,744	95
V Show Choir Rental	4,157	-	2,090	683	5,564
JV Show Choir Rental	3,914	-	1,105	1,588	3,431
Concert Choir Uniform Rental	882	-	592	1,258	216
Gifts and Donations	3,726	-	1,142	1,041	3,827
Interest Earned	183	-	3,230	2,923	490
Elementary Art Fair	(67)	-	3,617	2,865	685
Jr Parents Prom Money	16,200	-	2,218	11,526	6,892
Tournaments	-	-	15,532	14,192	1,340
Middle School Music	-	176	855	1,031	-
HS Vocal Music	(952)	-	11,272	7,886	2,434
HS Instrumental Music	149	-	2,013	2,162	-
Swing Choir	(422)	-	1,978	-	1,556
Musical/Play	1	2	1,233	1,378	(142)
Pupil Insurance	(2)	-	1,226	1,224	-
FFA	6,755	-	18,899	20,763	4,891
Speech and Drama	1	758	25	784	-
Elementary Student Council	3,194	-	2,168	1,129	4,233
MS Student Council	2,058	-	5,714	5,896	1,876
HS Student Council	6,256	-	5,783	8,050	3,989
Concessions	485	-	1,167	1,098	554
Previous Year Aerie	55	-	210	-	265
Present Year Aerie	2,127	-	12,375	11,243	3,259
National Honor Society	-	331	1,246	1,643	(66)
Previous Classes	147	1,100	-	100	1,147
Class of 2009	6	-	14	60	(40)
Class of 2006	943	(1,100)	1,768	1,611	-
Class of 2003	(167)	-	167	-	-
Class of 2007	(144)	-	17,443	17,139	160
Class of 2008	(60)	-	15	60	(105)
Cheerleaders	863	-	2,842	1,462	2,243
Peer Counseling	105	-	-	-	105
Spanish Club	-	-	2,729	2,709	20
MS Boys Basketball	-	595	-	595	-
MS Girls Basketball	-	900	-	900	-
MS Football	-	961	-	961	-
MS Wrestling	-	90	-	90	-
MS Volleyball	-	707	-	707	-
MS Boys Track	-	139	15	129	25
MS Girls Track	-	74	-	49	25
General Athletics	303	-	4,698	4,869	132
Volleyball Concessions	(325)	-	1,397	650	422
HS Boys Basketball	9,262	-	7,455	3,330	13,387

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Funds, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Interfund Transfers	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$	\$
HS Football	4,971	1,300	14,099	20,359	11
HS Baseball	(726)	1,500	3,742	7,119	(2,603)
HS Wrestling	7,114	-	13,756	11,120	9,750
HS Boys Track	(386)	322	2,796	4,022	(1,290)
HS Boys Golf	-	962	360	1,335	(13)
HS Girls Basketball	7,692	-	7,010	6,558	8,144
HS Volleyball	49	-	3,160	2,363	846
HS Softball	(777)	1,500	5,144	5,164	703
HS Girls Track	(1,315)	1,465	3,734	3,884	-
HS Girls Golf	(22)	1,119	-	1,097	-
Journalism	395	-	-	-	395
Towels	2,573	-	1,291	519	3,345
Maier Fund	162	-	-	-	162
	<u>79,407</u>	<u>-</u>	<u>204,192</u>	<u>201,068</u>	<u>82,531</u>

See accompanying independent auditor's report.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2006	2005	2004	2003
	\$	\$	\$	\$
Local sources:				
Local tax				
Property tax	2,665,923	2,729,426	2,511,589	2,389,916
Income surtaxes	356,149	305,973	270,396	111,071
Local option sales tax	365,181	243,046	-	-
Mobile home tax	533	1,348	2,875	1,061
	<u>3,387,786</u>	<u>3,279,793</u>	<u>2,784,860</u>	<u>2,502,048</u>
State sources:				
State foundation aid	2,346,324	2,362,774	2,353,806	2,519,428
Instructional support state aid	20,678	22,746	15,812	17,590
Educational Excellence Program:				
Phase I	17,907	19,278	20,736	21,859
Phase II	54,466	55,870	58,527	62,084
Phase III	-	-	-	15,426
AEA flow-through	252,130	231,258	236,675	255,413
Transportation aid non-public students	19,400	19,669	21,409	20,867
Textbook aid non-public students	1,486	1,488	1,337	1,498
Vocational education aid	806	10,319	10,285	13,603
Revenue in lieu of taxes - military credits	1,914	1,976	1,834	1,815
Lunch and breakfast program claims	4,413	4,542	4,283	4,633
Iowa Early Intervention Block Grant	43,248	38,896	41,605	39,873
Employability Skills	-	-	1,000	5,046
Teacher mentoring	9,100	6,500	5,200	5,200
Evaluator training	-	-	-	3,000
Medicaid fund	-	99,002	83,001	-
Professional development	23,740	-	-	-
Teacher compensation	69,714	62,310	60,674	54,245
	<u>2,865,326</u>	<u>2,936,628</u>	<u>2,916,184</u>	<u>3,041,580</u>
Federal sources:				
Title I Grants to Local Educational Agencies	114,202	115,929	88,261	118,002
Special Education - Basic Grants to States	38,567	36,996	31,550	33,959
Innovative Educational Program Strategies (Title VI)	1,941	2,943	4,204	4,413
Improving Teacher Quality States Grants	38,612	41,388	41,264	33,968
Safe and Drug Free Schools and Communities - States Grants	3,451	4,320	3,398	6,323
National School Lunch and Breakfast Programs	117,719	114,709	100,588	99,223
Food Distribution	19,189	18,183	19,906	22,940
School Renovation, IDEA and Technology Grant	-	-	-	18,991
Tech Prep Grant	5,000	2,300	2,300	2,300
Grants for Assessments and Related Activities	4,380	4,374	4,512	-
Iowa Demonstration Grant	50,000	-	-	133,000
Iowa Life Safety Demonstration Grant	-	-	-	10,085
Medicaid fund	44,077	-	148,214	-
Other Grants	-	-	1,800	-
	<u>437,138</u>	<u>341,142</u>	<u>445,997</u>	<u>483,204</u>
Total	<u>6,690,250</u>	<u>6,557,563</u>	<u>6,147,041</u>	<u>6,026,832</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Emmetsburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Emmetsburg Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 28, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Emmetsburg Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emmetsburg Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Emmetsburg Community School District and other parties to whom Emmetsburg Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Emmetsburg Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

August 28, 2006

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

06-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

06-I-B LIABILITY INSURANCE

Comment - We noted that several organizations were covered by a rider under the school's liability insurance policy, but did not pay for this coverage. None of the organizations qualified as component units and thus do not have to have their financial activities included in the District's financial records under normal circumstances.

Recommendation - We recommend that the District charge a fee necessary to cover the costs of attaching these organizations to the District's liability policy.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

06-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-II-B Certified Budget - Expenditures for the year ended June 30, 2006, did not exceed the amended certified budget amounts in any of the four functions.

06-II-C Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

06-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

EMMETSBURG COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

06-II-E Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dave Van Oosbree Board Member	Repairs	\$ 1,823

The transactions with Mr. Van Oosbree do not exceed the \$2,500 limit allowed by Iowa law.

Recommendation - We recommend that the District annually review these transactions to ensure continued compliance.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

06-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

06-II-G Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

06-II-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

06-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

06-II-J Certified Enrollment - We noted no variances in the basis enrollment data certified to the Department of Education.